
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 10-Q

☒ **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended March 31, 2003

or

☐ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For transition period from to

Commission File No. 0-12553

PACCAR FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Washington

(State or other jurisdiction of
incorporation or organization)

91-6029712

(I.R.S. Employer Identification No.)

777 – 106th Ave. N.E., Bellevue, WA
(Address of principal executive offices)

98004
(Zip code)

(425) 468-7100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:

Common Stock, \$100 par value—145,000 shares as of April 30, 2003

THE REGISTRANT IS A WHOLLY-OWNED INDIRECT SUBSIDIARY OF PACCAR INC AND MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTIONS (H)(1)(A) AND (B) OF FORM 10-Q AND IS, THEREFORE, FILING THIS FORM WITH THE REDUCED DISCLOSURE FORMAT.

FORM 10-Q
PACCAR FINANCIAL CORP.

PART I—FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Statements of Income and Retained Earnings (Unaudited)
(Millions of Dollars)

Three Months Ended March 31	2003	2002
Interest and fee income	\$ 52.3	\$ 59.4
Operating lease and rental income	10.1	6.3
Insurance premiums and other revenue	5.5	4.6
TOTAL INTEREST AND OTHER REVENUE	67.9	70.3
Interest and other borrowing expenses	23.8	32.9
Depreciation and other operating lease and rental expenses	7.2	4.4
Insurance claims and underwriting expenses	3.2	3.0
Selling general and administrative expenses	10.6	10.6
Provision for losses on receivables	6.1	15.8
TOTAL EXPENSES	50.9	66.7
INCOME BEFORE INCOME TAXES	17.0	3.6
Income taxes	6.6	1.5
NET INCOME	10.4	2.1
RETAINED EARNINGS AT BEGINNING OF PERIOD	426.0	409.7
RETAINED EARNINGS AT END OF PERIOD	\$ 436.4	\$ 411.8

Earnings per share and dividends per share are not reported because the Company is a wholly-owned subsidiary of PACCAR Financial Services Corporation.

See Notes to Financial Statements.

Balance Sheets
(Millions of Dollars)

	March 31 2003	December 31 2002*
ASSETS	(Unaudited)	
Cash	\$ 19.1	\$ 9.9
Finance and other receivables, net of allowance for losses of \$66.9 (\$66.9 in 2002)	3,089.5	3,156.2
Loans to PACCAR Inc and affiliates	197.4	192.0
Equipment on operating leases, net of depreciation of \$30.7 (\$26.8 in 2002)	123.4	122.3
Equipment held for sale	11.4	10.6
Other assets	22.7	20.5
TOTAL ASSETS	\$ 3,463.5	\$ 3,511.5
LIABILITIES		
Accounts payable and accrued expenses	\$ 63.9	\$ 63.7
Payable for finance receivables acquired	50.9	50.5
Derivative liability	46.6	52.2
Commercial paper	999.3	1,120.6
Medium-term notes and other borrowings	1,536.8	1,484.0
Income taxes – current and deferred	189.8	184.6
TOTAL LIABILITIES	2,887.3	2,955.6
STOCKHOLDER'S EQUITY		
Preferred stock, par value \$100 per share, 6% noncumulative and nonvoting, 450,000 shares authorized, 310,000 shares issued and outstanding	31.0	31.0
Common stock, par value \$100 per share, 200,000 shares authorized, 145,000 shares issued and outstanding	14.5	14.5
Paid-in capital	121.1	116.0
Retained earnings	436.4	426.0
Accumulated other comprehensive loss	(26.8)	(31.6)
TOTAL STOCKHOLDER'S EQUITY	576.2	555.9
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	\$ 3,463.5	\$ 3,511.5

*The December 31, 2002 balance sheet has been derived from the audited financial statements.

See Notes to Financial Statements.

Statements of Cash Flows (Unaudited)
(Millions of Dollars)

Three Months Ended March 31	2003	2002
OPERATING ACTIVITIES		
Net income	\$ 10.4	\$ 2.1
Items included in net income not affecting cash:		
Provision for losses on receivables	6.1	15.8
Deferred taxes provision	(5.9)	(4.0)
Depreciation and amortization	7.2	4.1
Increase in payables and other	11.1	5.3
NET CASH PROVIDED BY OPERATING ACTIVITIES	28.9	23.3
INVESTING ACTIVITIES		
Finance and other receivables originated	(211.8)	(215.9)
Collections on finance and other receivables	322.7	348.1
Net (increase) decrease in wholesale receivables	(54.2)	3.6
Net (increase) decrease in loans to PACCAR Inc and affiliates	(5.4)	14.1
Acquisition of equipment	(7.5)	(8.4)
Proceeds from disposal of equipment	1.5	1.2
NET CASH PROVIDED BY INVESTING ACTIVITIES	45.3	142.7
FINANCING ACTIVITIES		
Net decrease in commercial paper and other short-term borrowings	(121.3)	(228.9)
Proceeds from medium-term notes and other borrowings	190.0	150.0
Payments of medium-term notes and other borrowings	(137.2)	(97.8)
Payment of advances from PACCAR Inc	(1.6)	—
Capital contributions	5.1	5.9
NET CASH USED IN FINANCING ACTIVITIES	(65.0)	(170.8)
NET INCREASE (DECREASE) IN CASH	9.2	(4.8)
CASH AT BEGINNING OF PERIOD	9.9	18.5
CASH AT END OF PERIOD	\$ 19.1	\$ 13.7

See Notes to Financial Statements.

NOTE A—Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the financial statements and footnotes included in PACCAR Financial Corp.'s (the "Company") Annual Report on Form 10-K for the year ended December 31, 2002.

Reclassifications: Certain prior year amounts have been reclassified to conform to the 2003 presentation.

NOTE B—Transactions with PACCAR Inc and Affiliates

The Company and PACCAR Inc ("PACCAR") are parties to a Support Agreement that obligates PACCAR to provide, when required, financial assistance to the Company to ensure that the Company maintains a ratio of net earnings available for fixed charges to fixed charges (as defined) of at least 1.25 to 1 for any fiscal year. The Support Agreement also requires PACCAR to own, directly or indirectly, all outstanding voting stock of the Company. The required ratio for the three months ended March 31, 2003 and full year 2002 was met without assistance. The Company determines the amount of PACCAR assistance, if any, at the end of each fiscal year.

PACCAR Financial Services Corporation ("PFSC") charges the Company for certain administrative services it provides and certain services the Company receives indirectly from PACCAR. The costs are charged to the Company based upon the Company's specific use of the services at PFSC's or PACCAR's cost. Management considers these charges reasonable and not significantly different from the costs that would be incurred if the Company were on a stand-alone basis. PFSC recognizes certain of these administrative services as an additional investment in the Company. The Company records the investment as paid-in capital. There were no cash dividends declared or paid during the first three months of 2003 or 2002. A cash dividend in the amount of \$11.0 was declared and paid during the second quarter 2002.

Periodically, the Company borrows funds from PACCAR and makes loans to PACCAR. Loans outstanding to PACCAR were \$45.0 and \$38.7 at March 31, 2003 and December 31, 2002, respectively. Loans outstanding from PACCAR were \$1.3 and \$2.9 at March 31, 2003 and December 31, 2002, respectively.

PACCAR has issued letters of credit as of March 31, 2003 in the amount of \$7.9 on behalf of the Company to guarantee funds for payment to insured franchisees and their customers for any future insurance losses.

The Company periodically loans funds to certain foreign finance and leasing affiliates of PACCAR. These various affiliates have Support Agreements with PACCAR, similar to the Company's Support Agreement. The foreign affiliates operate in the United Kingdom, the Netherlands, Mexico, Canada and Australia, and any resulting currency exposure is fully hedged. The foreign affiliates provide financing and leasing of trucks and related equipment manufactured primarily by PACCAR and sold through PACCAR's independent dealer networks in Europe, Mexico, Canada and Australia. The Company will not make loans to the foreign affiliates in excess of the equivalent of \$300.0 United States dollars, unless the amount in excess of such limits is guaranteed by PACCAR. The Company periodically reviews the funding alternatives for these affiliates, and these limits may be revised in the future. There was a total of \$152.4 and \$153.3 in loans outstanding to

foreign affiliates operating in the United Kingdom, the Netherlands and Mexico at March 31, 2003 and December 31, 2002, respectively.

NOTE C—Preferred Stock

The Company's Articles of Incorporation provide that the 6% noncumulative, nonvoting preferred stock (100% owned by PFSC) is redeemable only at the option of the Company's Board of Directors.

NOTE D—Other Comprehensive Income

The components of other comprehensive income, net of related tax, were as follows:

	Three Months Ended March 31	
	2003	2002
Net income	\$ 10.4	\$ 2.1
Other comprehensive income:		
Unrealized net gain on derivative contracts	4.8	11.1
Net other comprehensive income	4.8	11.1
Total comprehensive income	\$ 15.2	\$ 13.2

Accumulated other comprehensive loss of \$26.8 and \$31.6 at March 31, 2003 and December 31, 2002, respectively, is comprised of the unrealized net loss on derivative contracts.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (Millions of Dollars)

Results of Operations:

The Company's net income of \$10.4 for the first three months of 2003 was \$8.3 higher than the first three months of 2002. The main contributor to the profit improvement was lower credit losses resulting in a lower provision for losses. The provision for losses decreased by \$9.7 to \$6.1 in the first three months of 2003. Credit losses have improved due to fewer repossessions and higher used truck prices resulting in a lower loss per repossession. Also contributing to better earnings were higher margins earned on finance receivables and operating leases due to competitive market conditions and enhancements made to pricing and credit practices.

The following table summarizes the activity in the Company's allowance for losses on receivables and presents related ratios:

Allowance for Losses

	Three Months Ended March 31 2003	Year Ended December 31 2002	Three Months Ended March 31 2002
Balance at beginning of period	\$ 66.9	\$ 66.2	\$ 66.2
Provision for losses	6.1	42.2	15.8
Credit losses net of recoveries	(6.1)	(41.5)	(15.5)
Balance at end of period	<u>\$ 66.9</u>	<u>\$ 66.9</u>	<u>\$ 66.5</u>
Ratios:			
Credit losses net of recoveries to average net receivables and equipment on operating leases (annualized for March 31, 2003 and 2002)	0.77%	1.29%	1.95%
Allowance for losses to period-end net receivables and equipment on operating leases	2.08%	2.04%	2.07%
Period-end retail receivables and leases past due (over 60 days) to period-end retail contracts and lease receivables	2.15%	1.91%	2.85%

The level of credit losses in the future is dependent on various factors including, among other things, overall economic conditions, fuel prices and other operating costs for customers, freight volumes and used truck values.

Funding and Liquidity:

Since 1983, the Company has registered debt securities under the Securities Act of 1933 for offering to the public. In 2000, the Company filed a shelf registration statement under which \$2,500.0 of medium-term notes could be issued as needed. As of March 31, 2003, \$440.0 of such securities were available for issuance. The Company plans to file a new shelf registration statement prior to the end of 2003.

The Company believes that it has sufficient financial capabilities to continue funding receivables and servicing debt through internally generated funds, lines of credit, access to public and private debt markets, and other financial resources.

The Company participates with PACCAR and other PACCAR affiliates in syndicated credit facilities of \$1,275.0 at March 31, 2003 which are entirely available for use by the Company. These credit facilities are used to provide backup liquidity for the Company's short-term borrowings. The Company is liable only for its own borrowings under these credit facilities. There were no borrowings under these credit facilities in the three months ended March 31, 2003 and the year ended December 31, 2002.

Other information on liquidity, sources of capital, and contractual cash commitments as presented in the Company's 2002 Annual Report on Form 10-K continues to be relevant.

Forward Looking Statements:

Certain information presented in this Form 10-Q contains forward-looking statements made pursuant to the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties that may affect actual results. The risks and uncertainties include, but are not limited to national and local economic, political and industry conditions; changes in the levels of new business volume due to unit fluctuations in new PACCAR truck sales; changes in competitive factors; changes affecting the profitability of truck owners and operators; price changes impacting equipment costs and residual values; changes in costs and availability of external funding sources; and legislation and governmental regulation.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no material changes in the Company's market risk during the three months ended March 31, 2003. For additional information, refer to Item 7a of the Company's December 31, 2002 Annual Report on Form 10-K.

Item 4. CONTROLS AND PROCEDURES

The Company's principal executive officer and principal financial officer evaluated the Company's disclosure controls and procedures (as defined in rule 13a-14(c) and 15d-14(c) under the Securities Exchange Act of 1934, as amended) as of a date within 90 days before the filing of this quarterly report (the Evaluation Date). Based on that evaluation, the principal executive officer and principal financial officer of the Company concluded that, as of the Evaluation Date, the disclosure controls and procedures in place at the Company were adequate to ensure that information required to be disclosed by the Company, including any consolidated subsidiaries (the Company has no subsidiaries), in reports that the Company files or submits under the Exchange Act, is recorded, processed, summarized and reported on a timely basis in accordance with applicable rules and regulations. There have been no significant changes in the Company's internal controls or in other factors that could significantly affect internal controls subsequent to the Evaluation Date.

PART II—OTHER INFORMATION

For items 1, 2, 3, 4 and 5, there was no reportable information during the three months ended March 31, 2003.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

- (a) Exhibits filed as part of this report are listed in the accompanying Exhibit Index.
- (b) There were no reports on Form 8-K for the quarter ended March 31, 2003.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PACCAR Financial Corp.

(Registrant)

Date May 12, 2003

By /s/ Timothy M. Henebry

Timothy M. Henebry

President

(Authorized Officer)

By /s/ Barry E. Prather

Barry E. Prather

Controller

(Chief Accounting Officer)

CERTIFICATIONS

I, Mark C. Pigott, Chairman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PACCAR Financial Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date May 12, 2003

/s/ Mark C. Pigott
Mark C. Pigott
Chairman
(Principal Executive Officer)

CERTIFICATIONS

I, Michael A. Tembreull, Vice Chairman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of PACCAR Financial Corp.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date May 12, 2003

/s/ Michael A. Tembreull
Michael A. Tembreull
Vice Chairman
(Principal Financial Officer)

EXHIBIT INDEX

Exhibit (in order of assigned index numbers)

- 3.1 Restated Articles of Incorporation of the Company, as amended (incorporated by reference to Exhibit 3.1 to the Company's Annual Report on Form 10-K dated March 26, 1985. Amendment incorporated by reference to Exhibit 19.1 to the Company's Quarterly Report on Form 10-Q dated August 13, 1985, File Number 0-12553).
- 3.2 By-Laws of the Company, as amended (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form 10-Q dated October 20, 1983, File Number 0-12553).
- 4.1 Indenture for Senior Debt Securities dated as of December 1, 1983 and first Supplemental Indenture dated as of June 19, 1989 between the Company and Citibank, N.A. (incorporated by reference to Exhibit 4.1 to the Company's Annual Report on Form 10-K dated March 26, 1984, File Number 0-12553 and Exhibit 4.2 to the Company's Registration Statement on Form S-3 dated June 23, 1989, Registration Number 33-29434).
- 4.4 Forms of Medium-Term Note, Series I (incorporated by reference to Exhibits 4.2A and 4.2B to the Company's Registration Statement on Form S-3 dated September 10, 1998, Registration Number 333-63153).
- Form of Letter of Representation among the Company, Citibank, N.A. and The Depository Trust Company, Series I (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-3 dated September 10, 1998, Registration Number 333-63153).
- 4.5 Forms of Medium-Term Note, Series J (incorporated by reference to Exhibits 4.2A and 4.2B to the Company's Registration Statement on Form S-3 dated March 2, 2000, Registration Number 333-31502).
- Form of Letter of Representation among the Company, Citibank, N.A. and The Depository Trust Company, Series J (incorporated by reference to Exhibit 4.3 to the Company's Registration Statement on Form S-3 dated March 2, 2000, Registration Number 333-31502).
- 10.1 Support Agreement between the Company and PACCAR dated as of June 19, 1989 (incorporated by reference to Exhibit 28.1 to the Company's Registration Statement on Form S-3 dated June 23, 1989, Registration Number 33-29434).
- 12.1 Statement re: computation of ratio of earnings to fixed charges of the Company pursuant to SEC reporting requirements for the three-month periods ended March 31, 2003 and 2002.
- 12.2 Statement re: computation of ratio of earnings to fixed charges of the Company pursuant to the Support Agreement between the Company and PACCAR for the three-month periods ended March 31, 2003 and 2002.
- 12.3 Statement re: computation of ratio of earnings to fixed charges of PACCAR and subsidiaries pursuant to SEC reporting requirements for the three-month periods ended March 31, 2003 and 2002.

99.1 Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350).

99.2 Certification pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. section 1350).

Other exhibits listed in Item 601 of Regulation S-K are not applicable.